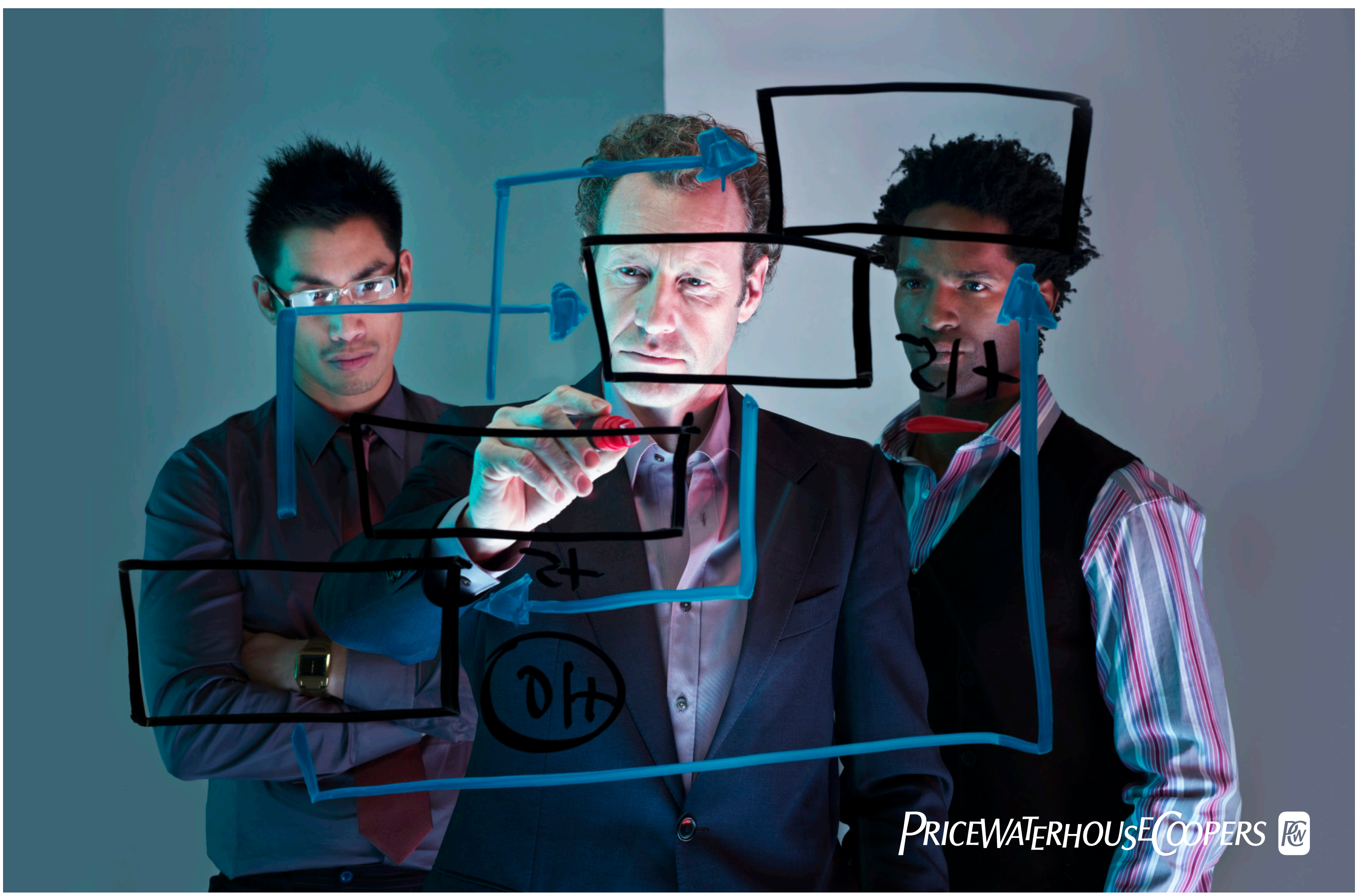
Intersections

Second-quarter 2010 global transportation and logistics industry mergers and acquisitions analysis

Making smarter deals in a changing environment: Merger integration



Welcome to the second-quarter 2010 edition of *Intersections*, our analysis of mergers and acquisitions (M&A) in the global transportation and logistics sector. In addition to a detailed summary of M&A activity in the second quarter of 2010, we continue our special report series on making smarter deals in a changing environment and look at merger integration and the ever-increasing importance of capturing synergies to maximize deal value. The discussion explores the significance of cost containment and synergy target identification, and presents strategies for successful M&A integration.

Special report:
Making smarter deals in a changing environment: Merger integration

Capturing synergies to maximize deal value

It's perhaps the hardest and most important part of a transaction. When done right, it unites two entities and improves the operations and financial well-being of nearly everyone involved, from the owners and investors to the employees of both organizations. But without a vision and a plan to capture synergies that make the whole better than the sum of the parts, a merger integration is in trouble from the start.

In today's recovering economy, the merger integration planning process is more important than ever. Transportation and logistics (T&L) companies must balance a desire to quickly reach the finish line with a need to systematically leverage synergies and contain costs. As the number of announced T&L deals grows and as more companies enter this toughest phase of the deal process, organizations focused on outpacing their competitors can lose sight of the deal's objectives.

Companies operating within the heavily regulated airline industry face added complications of bringing together company procedures used to deal with traceability and quality issues associated with the manufacture of aircraft. Further, transactions within the T&L industry are often complicated by competition issues or a need for contracted subsidies to support operations. There is also the ongoing consolidation within and between operators from the courier, parcel, freight forwarding, and contract logistics arenas. Additionally, postal organizations and railway companies that have historically been more nationally oriented are looking for opportunities to expand into cross-border markets, driven by a more commercial focus and liberal regulatory regime.

"Multinational transportation and logistics companies strengthened their cash positions during the recession, and as they look forward over the next three to five years, acquisitions are seen as a key enabler for revenue growth," said Jim Smith, a PricewaterhouseCoopers (PwC) M&A Integration practice leader. "Having done acquisitions in the past, many of these companies are reflecting on how well those deals were executed, and they see opportunities for improvement — opportunities to execute a smooth transaction with an early realization of synergies."

The economic recovery highlights the importance of cost containment

During the economic downturn, T&L companies spent considerable time and effort right-sizing their cost and organizational structures. Now that the economy is recovering, businesses can stimulate revenue growth through acquisitions, capturing value by consolidating operations, reducing costs, and emphasizing strengths.

During the integration phase, companies must guard against inadvertently adding unnecessary overhead by failing to recognize redundant processes. Instead, companies are challenged to stay lean and hold on to cost benefits achieved during the downturn. To meet that goal requires identifying and quantifying synergy targets. With a disciplined approach and the right tools, companies can accelerate the integration process and realize savings up to 40 percent.

"As companies are doing acquisitions, they must be focused, structured, and fast moving to take out excess overhead and leverage the economy of scale or cost advantages that businesses obtain as a result of an acquisition," said PwC's Michael Wright, an M&A Integration practice leader. "The value driver initiative could be combining the two back-office finance functions or consolidating and implementing best practices that eliminate redundancy." Synergy also is found by combining purchasing power and driving better costs and terms with strategic vendors and service providers.

Identifying synergy targets

The synergies identified during the merger integration phase can be categorized into three common areas: revenue and market growth, cost reduction and efficiency leverage, and capital optimization.

Revenue and market growth

The deal strategy may anticipate synergies from entering new markets, expanding to new geographies, or accessing new distribution channels. Other synergies can be realized by leveraging an expanded sales force to reach new customers. Still more could result from product innovation by combining each company's research and development efforts and using existing production platforms to deliver new products or services.

Cost reduction and efficiency leverage

Typically, opportunities for cost reduction can be found in the income statement, particularly in back-office functional areas such as procurement, payroll, finance, human resources, and information technology. These synergies can result from permanent reductions in departmental operating costs (e.g., headcount reductions), better management of combined spend (e.g., policy alignment), and increased productivity from consolidated operations (e.g., economies of scale, better use of technology, vendor consolidation, leveraged purchasing, etc.), among others.

Capital optimization

A company's balance sheet might also be the source of synergy opportunities. For example, "hard" assets such as property, plant, equipment, and inventory can be rationalized through combination, closure, or more optimized utilization. "Soft" asset synergies can be realized through better management of working capital, cost of capital, and accounts receivable (e.g., collection periods, A/R turnover, etc.) and optimization of debt-to-equity levels.

Staying on track during the integration phase

During the integration phase, both companies must maintain their customer base. They can achieve that goal by making preparations during the due diligence process to define the marketing and sales strategy of the combined company. Once the deal is announced, they should educate their sales force on how the deal will impact each customer segment. They should also contact their most loyal customers from both companies to communicate ways the new company will better serve them and to quickly demonstrate their unified entity to the customers. This is particularly important when purchasing a complementary product or where the acquired business shares a similar customer base.

It also is critically important for the finance function to deliver a centralized process for monitoring, tracking, and reporting synergies to ensure the new company stays on task and delivers measurable results. Companies depend on their finance function to structure the tracking to measure the capture of deal value, integrate business operations, maintain common controls, provide accurate and consistent financial reporting, ensure tax compliance, and establish interim legal structures and business processes that provide the new company with the flexibility it needs to grow and thrive.

Strategies for successful M&A integration

Companies that seek to achieve profound organizational change through a deal should consider the following strategies:

- Manage diligence and integration in lockstep — In a merger or acquisition, an integrated process for due diligence and integration can help companies better identify issues and opportunities. The due diligence period is utilized to extract key information relevant to the way the business is integrated, especially in two key areas: an early assessment of the potential benefits and an early assessment of the risks/challenges the integration is likely to pose. According to research, 30 percent of the outcome is effected by activities during the pre-combination phase, while 70 percent depends on activities during the post-merger period.

- Envision and plan for Day One — During the deal process, companies that focus on all of the operational details for their new company will be well-positioned to hit the ground running as soon as the deal concludes. Objectives and scope of the integration plan should be derived from the business plan and should be in balance with the core business.
- Secure leadership commitment — When companies pursue transformation, it is essential to establish executive leadership both for the deal itself and for the organization going forward. This includes defining the span of control, responsibility, accountability, and reporting relationships.
- Aspire to excellence in deal communications — How companies communicate about a deal, both internally and externally, matters. This includes the deal announcement, integration progress, and people plans.
- Prioritize initiatives for maximum impact — During a deal, companies that don't try to boil the ocean but rather focus on those projects that either generate revenue or drive down cost tend to be more successful in their efforts.
- Establish an integration management office — Integration in particular requires rigorous program management and realistic timelines. Without a central governance structure and a methodology driving the integration, people might fail to complete important tasks. For serial acquirers it is highly recommended to implement a merger integration guideline containing a certain degree of standardization regarding processes, role profiles, methods and tools, tracking and reporting, and knowledge management.
- Execute quickly and methodically — Companies should consider all areas touched by the transformation and engage the various stakeholders, such as finance, information technology, human resources, legal, operations, and sales and marketing. They should also focus on speed, particularly during an integration.
- Remember to put people issues first — Especially during a transformative deal, it's critical that the goals for individuals align with the goals of the overall company. People should understand where they fit, what they are being asked to do, and how what they do is associated with the value they provide every day.

Closing deals is tough, but capturing deal value is even tougher. In some ways, deciding whether to go forward with a merger or acquisition is the easy part. The act of "owning" after the transaction is complete is the real challenge. In the end, the market will reward or punish shareholders of the combined company depending on how well its management succeeds at achieving stated deal objectives. So it is imperative that synergies are realized, deal value is captured, and the resulting performance is communicated to all those with a stake in the outcome.

Perspective:
Thoughts on deal activity in the second quarter of 2010

Welcome to the second-quarter 2010 edition of *Intersections*, our analysis of M&A in the global transportation and logistics sector. Deal activity continued a general trend of convalescence during the quarter as measured by number of deals. In addition, average deal values remained well above those of the prior year when adjusting for the impact of the $36.7 billion Burlington Northern acquisition.

In previous updates, we indicated the likelihood that a US economic recovery would lead to increased M&A activity involving US entities. We are pleased to report that the relative level of participation by US entities has increased but acknowledge that substantial risks remain in this economy, which could serve to attenuate future totals. Chinese and Indian entities are also playing a more prominent role in sector activity with a series of local-market deals in the passenger air and shipping modes. The growing importance of China and India to sector deal making seems more certain to persist in the second half than that of the United States, based on higher expected economic growth rates and the need to consolidate relatively fragmented markets.

Another hallmark of the M&A recovery this year is the contribution of more announcements involving passenger than freight targets. The deal value ascribed to passenger ground and air modes increased to 76 percent of the total for 2010, compared with only 27 percent in 2009. This trend also holds when adjusting for the aforementioned Burlington railroad transaction. These totals also don't include several passenger air M&A alternatives, including slot swaps and alliance changes, which constituents are attempting to implement to deliver synergies and better withstand potential regulatory scrutiny.

We also note that all four mega deals announced so far this year targeted passenger ground or air companies. We are unable to ascribe this interest in passenger mega deals to a single primary factor given differences in regional transportation economics. Instead, we observe that the four mega deals demonstrate a variety of acquirer rationales.

The $7 billion Japan Airlines (JAL) acquisition involves a distressed target, a deal type that had become common in the need-based M&A environment of recent years. The $3.68 billion Transurban offer, subsequently withdrawn, evidences that financial acquirers remain very interested in transportation infrastructure as an investment opportunity. The $3.69 billion merger of UAL and Continental is a response to competitive pressures in the airline industry, while Deutsche Bahn's $2.4 billion deal for Arriva indicates a desire to refocus the acquirer's business in light of more liberalized passenger ground transportation markets across Europe.

We believe that this first-half mega deal activity, with the exception of the JAL announcement, is a harbinger of upcoming deal flow in the sector. The near-term deal environment will likely continue to be driven by large strategic acquirers looking to reposition early in the traffic upturn. In addition, financial investors should increase their participation in the market, though perhaps intermittently during the next several quarters. Though several risks endure that could moderate an improvement in second-half deal totals, we continue to hold the view that a recovery is under way in the M&A environment for the transportation and logistics sector.

Commentary

Quarterly transportation and logistics deal activity
Measured by number and value of deals worth $50 million or more (3Q07–2Q10)

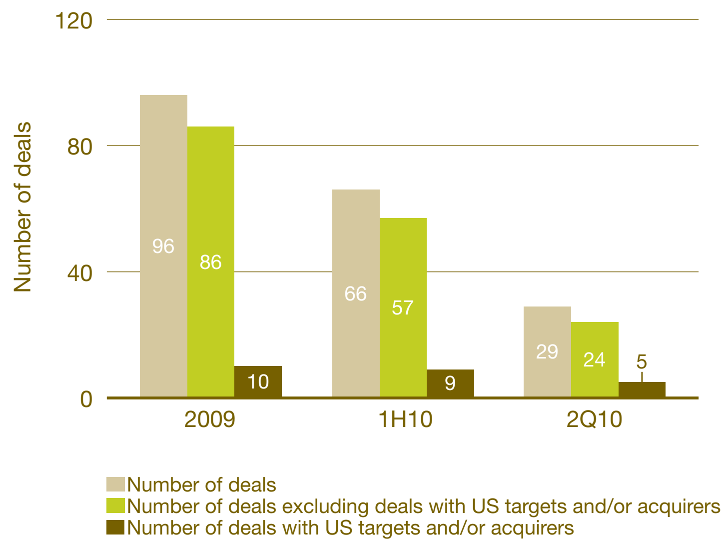
	2007		2008				2009				2010	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Number of Deals	56	62	55	43	49	49	22	14	26	34	37	29
Total Deal Value ($ bil)	24.7	24.7	22.5	34.6	18.8	22.6	5.5	4.8	8.1	53	15.9	13.1
Average Deal Value ($ bil)	0.4	0.4	0.4	0.8	0.4	0.5	0.3	0.3	0.3	1.6	0.4	0.5

Deal making picks up steam; US companies more active

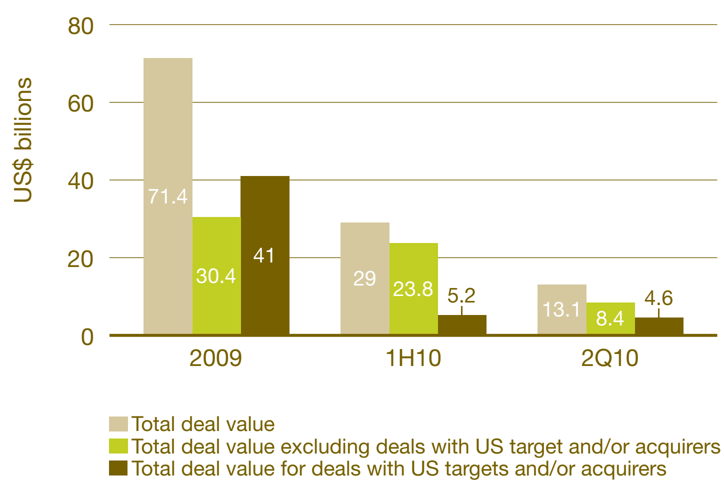
The pace of quarterly deal activity in the transportation and logistics sector generally remains above the recession lows of 2009. This is most evident when examining the number of deals, with the total announced during the second quarter comfortably ahead of the average quarterly deal level of 2009. For announced deal value, the second quarter somewhat lagged 2009 average quarterly levels, though deal value totals last year were skewed upward by Berkshire Hathaway's $36.7 billion acquisition of US freight railroad Burlington Northern.

Among US transportation and logistics companies, the M&A market demonstrated relative improvement during the second quarter. The proportions of total deal volume and value that involved US entities increased from the first quarter. The trend was also similar, adjusting for the aforementioned Burlington Northern deal, when comparing second-quarter activity with 2009 totals. This matches the expectation that a US economic recovery would likely be accompanied by increases in US deal flow. However, the potential for a double-dip, or "W"-shaped, recovery remains a risk to future activity.

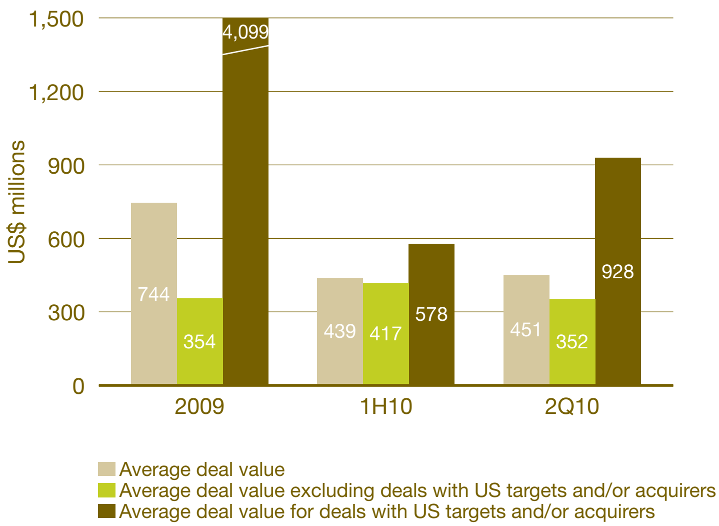
Deal activity by number of deals
Measured by number of announced deals worth $50 million or more



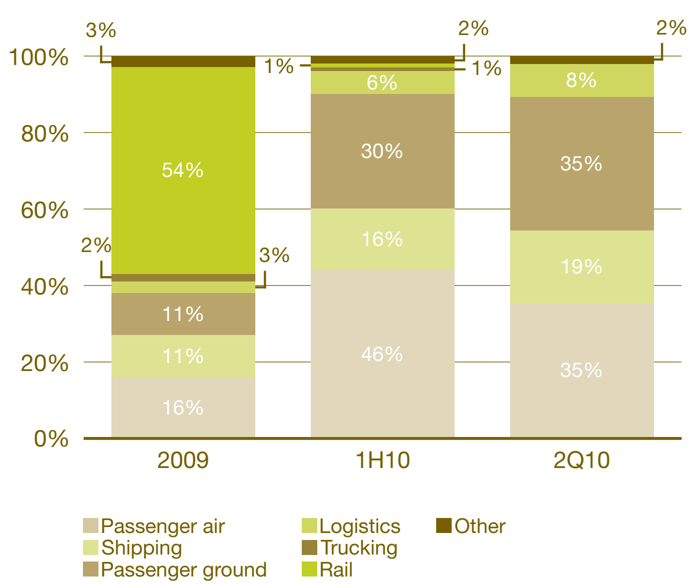
Deal activity by total deal value
Measured by value of announced deals worth $50 million or more



Deal activity by average deal value
Measured by value of announced deals worth $50 million or more



Deals by transportation & logistics mode
Measured by value of deals worth $50 million or more



Passenger transportation infrastructure continues to attract attention

Average deal values increased slightly in the second quarter as compared with the first half. However, these values generally remained below the 2009 level because of the inclusion of the Burlington announcement in 2009. This deal also contributed to the significant allocation of deal value to the rail mode in 2009.

Passenger ground continues to be an active source of deal activity as measured by value. Two of the four mega deals announced so far this year involved passenger ground targets. The factors driving mega deal activity in this mode — the desire to invest in passenger-related transportation infrastructure as well as consolidate deregulated markets further — should continue to factor into future mega deal activity in the sector.

The increase in average value for deals involving US entities over the course of 2010, as well as the continued high relative level of passenger air activity, has mostly been driven by the $3.7 billion acquisition of Continental by UAL Corp. (parent of United Airlines). These merger partners had reportedly entered into previous talks following the 2008 announcement of the Delta-Northwest transaction.

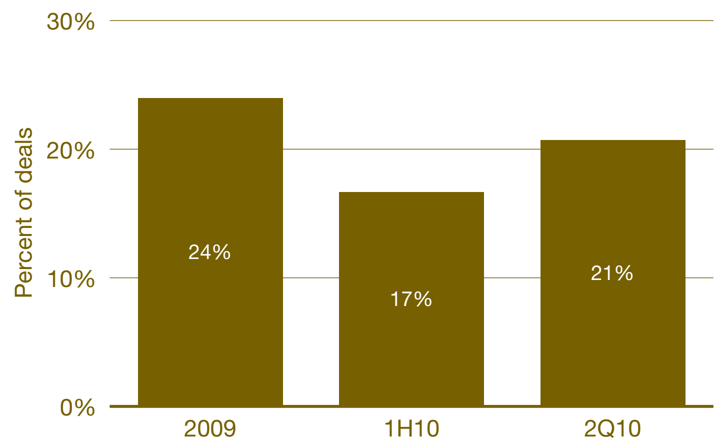
Passenger air will likely remain an active source of deals because of the competitive pressures of this mode. One avenue of deal flow is likely to come from mainline air carriers divesting some of their remaining regional operations. For example, Delta Airlines announced in early July that the company would sell its Mesaba and Compass regional carriers to Pinnacle Airlines and Trans States Holdings, respectively. In addition, AMR Corp (parent of American Airlines) has indicated that it would consider selling the American Eagle regional business. These transactions should benefit the mainline carriers by allowing them to reap the cost benefits of purchasing capacity from a set of regional competitors instead of maintaining a captive regional subsidiary. In addition, greater regulatory scrutiny of regional operators is one of the factors that may raise operating costs and increase the rationale for divestment.

Buyers from Asia rely on minority interest, as strategic investors continue to drive totals

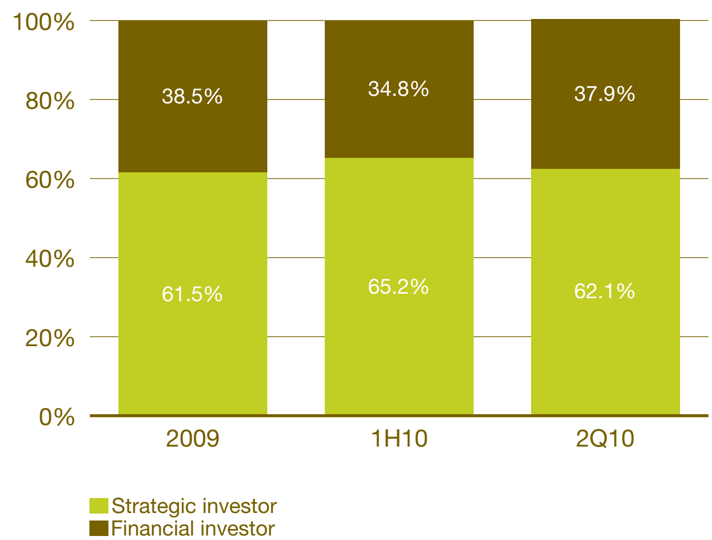
The relative level of minority stake purchases increased during the second quarter compared with the first half of the year. Though this may reflect that a sense of risk aversion remains in the transportation and logistics deal market, it is also noteworthy that this trend coincides with an increased level of deal activity by acquirers and targets in Asia. For example, companies in China and India were targeted in 34 percent of deals announced in the second quarter of 2010 compared with 25 percent of the deals announced during 2009, and all but one of the minority stake deals announced during the second quarter involved a target in Asia. This trend can be attributed to generally more stringent limitations on controlling-interest transactions in emerging and developing Asian economies.

The proportion of financial investor participation in the transportation and logistics deal market edged upward during the second quarter compared with the first half. However, financial acquirers have yet to return to the deal market in a significant and sustained way despite the continued amelioration of the credit markets. It is likely that during the balance of 2010, the majority of deals will continue to come from strategic buyers, many of whom may be motivated to reposition their businesses prior to a substantial recovery in deal valuations.

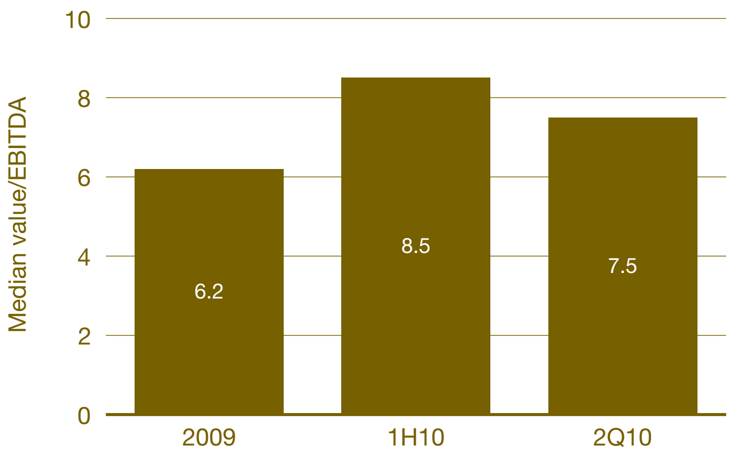
Minority stake purchases
Measured by percent of deals worth $50 million or more for <50 percent ownership



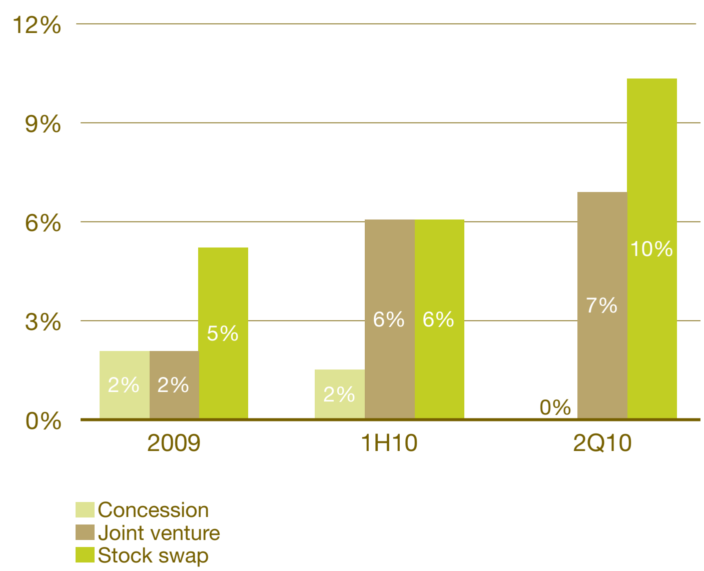
Deal activity by investor group
Measured by number of announced deals worth $50 million or more



Deal valuation by median value/EBITDA
Measured by value/EBITDA for deals worth $50 million or more



Deal by acquisition technique
Measured by percent of deals worth $50 million or more



Median values edge lower; joint ventures, swaps rise

The median value/EBITDA for transportation and logistics targets eased slightly in the second quarter compared with the first half of 2010. This quarterly trend is likely related to the increased use of minority stakes, which normally tend to be priced at a discount because of the lack of transfer of controlling interest.

The second quarter also featured a proportional increase in joint venture deals, but no concessions. Concessions involve a grant of property from government to a private entity for a predefined period. The absence of this technique is likely the result of residual concern over the potential impact of such transactions on employment levels. Joint ventures are defined as those that involve the transfer of existing assets by multiple parties. The increase in joint ventures likely reflects the ongoing desire of sector constituents to maintain their liquidity positions upon their return to the deal market.

Stock swaps have also increased as a method of structuring new deals, a trend that should persist if global equity markets continue their generally strong performance of the past year. An improvement in deal valuations is also likely if deal activity continues to recover during the second half of the year. However, it bears noting that the characteristics of these deals (e.g., the relative use of minority stakes and the number of transactions involving distressed assets) will also impact the median valuation of M&A announcements in the sector.

Mega deals in 2009 (deals with a disclosed value of at least $1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil	Category
Nov	Burlington Northern Santa Fe Corp	United States	Berkshire Hathaway Inc	United States	Completed	36.72	Rail
Nov	Transurban Group	Australia	Investor Group	Canada	Withdrawn	4.59	Passenger ground
Nov	Iberia Lineas Aereas de Espana SA	Spain	British Airways PLC	United Kingdom	Pending	2.90	Passenger air
Oct	London Gatwick Airport Ltd	United Kingdom	Global Infrastructure Partners LLC	United States	Completed	2.47	Passenger air
Jun	Transdev SA	France	Veolia Transport SA	France	Pending	2.26	Other
Sep	Hanjin Shipping Co Ltd -Shipping & Relevant Business	South Korea	Shareholders	South Korea	Completed	1.35	Shipping
Jul	National Express Group PLC	United Kingdom	Investor Group	Spain	Withdrawn	1.24	Passenger ground
Mar	Smit Internationale NV	Netherlands	Koninklijke Boskalis Westminster NV	Netherlands	Completed	1.21	Shipping
Jul	Shanghai Airlines Co Ltd	China	China Eastern Airlines Corp Ltd	China	Completed	1.10	Passenger air

Mega deals in 1H10 (deals with a disclosed value of at least $1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil	Category
Jan	Japan Airlines Corp	Japan	Enterprise Turnaround Initiative Corp of Japan (ETIC)	Japan	Pending	7.00	Passenger air
May	Continental Airlines Inc	United States	UAL Corp	United States	Pending	3.69	Passenger air
May	Transurban Group	Australia	Investor Group	Canada	Withdrawn	3.68	Passenger ground
Mar	Arriva PLC	United Kingdom	Deutsche Bahn AG	Germany	Pending	2.43	Passenger ground

Mega deals fit with changing economics

Two mega deals were announced during the second quarter and four during the first half of 2010. The largest mega deal of the first half was the Japan Airlines (JAL) acquisition by the Japanese government-backed Enterprise Turnaround Initiative Corp. (ETIC). The deal value for this acquisition reflects a combination of cash consideration and the assumption of liabilities. JAL entered into bankruptcy in January 2010 and, as of this writing, the airline is in the process of developing its restructuring plan, which is expected to involve reducing and cutting unprofitable routes.

Previous editions of Intersections shared the expectation that 2010 mega deals, ex-the JAL transaction, were not likely to be driven by need because of the gradual improvement in traffic levels across most modes. This expectation generally held true, though it bears noting that competitive pressures are creating some impetus for new mega deals this year.

For example, the second-largest mega deal was the $3.69 billion merger of equals between Continental Airlines and UAL Corp. through which the carriers are seeking $200 million to $300 million in annual cost synergies and $800 million to $900 million in annual revenue synergies by 2013. The deal still faces several hurdles, including regulatory approval and union-related negotiations. However, it seems that the recent Delta-Northwest merger, which the market has generally viewed as a successful transaction, may play a role in encouraging other legacy airlines to enter into new mega deals.

The third-largest announcement of 2010 was the $3.68 billion withdrawn tender offer for Transurban Group by an investor group led by the Canada Pension Plan Investment Board (CPPIB) and the Ontario Teachers' Pension Plan (OTPP). This bid was also joined by Australian infrastructure fund CP2. The offer, which was rejected by the target's board of directors, represented a per-share increase over a previous offer that was rejected in November. One point of contention for the acquirers was Transurban's plan to move forward with a secondary equity offering to finance the acquisition of the Lane Cove Tunnel in Sydney. It is unlikely that this investor group will come back to the table with another bid. Both CPPIB and OTPP signaled that they would consider divesting their existing stakes in Transurban, and Australian Stock Exchange notices indicate that OTPP has moved forward with this sale.

The fourth-largest mega deal of the first half was German government-owned Deutsche Bahn's $2.4 billion offer for UK-based bus and train operator Arriva PLC. This deal would result in Deutche Bahn becoming the largest rail transport company in Europe and building its exposure to more liberalized rail and bus markets across the continent. It is noteworthy that the Arriva announcement also follows reports of talks between Arriva and another suitor, the French government-owned entity SNCF, as this indicates the desire of state-owned operators to reposition in a more deregulated market. Such repositioning could lead to additional passenger ground consolidation in Europe with smaller independent operators as potential targets.

The outlook for future mega deal activity remains bright. Overall, sector deal volume has increased and deal sizes have generally aggrandized from recession levels, evidencing that acquirers have greater wherewithal and interest in engaging in larger transportation and logistics deals.

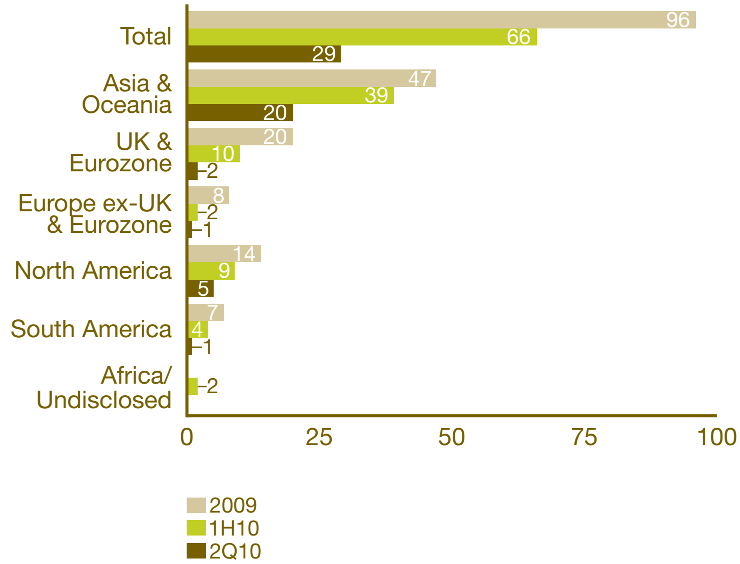
Asia's economic growth fuels local-market activity

The distribution of all deals by target region indicates that relative interest in Asia and Oceania targets has grown significantly compared with deals targeting entities in other regions. Asia and Oceania targets accounted for 69 percent of deal volume announced in the second quarter, compared with 49 percent of volume announced in 2009. There was a concomitant decline in the proportion of deal volume for targets in all other regions, with the exception of North America, over this time period. The North America region accounted for a significant amount of deal value by acquirer region due to the involvement of North American entities in the two mega deals announced during the quarter.

The rise in deals for Asia and Oceania targets has been driven by an increase in local-market transactions within China and India, many of which involved the shipping and passenger air transportation modes. This has been supported by higher economic and traffic growth rates in many nations within the Asia and Oceania region. For example, the International Monetary Fund estimates that expected real growth in gross domestic product over the next five years in both developing Asia and newly industrialized Asian economies will surpass the average growth rates within advanced economies. This relatively high level of economic activity should encourage deal making by parties in this region, supporting the continued importance of emerging and developing economy acquirers to future sector deal flow.

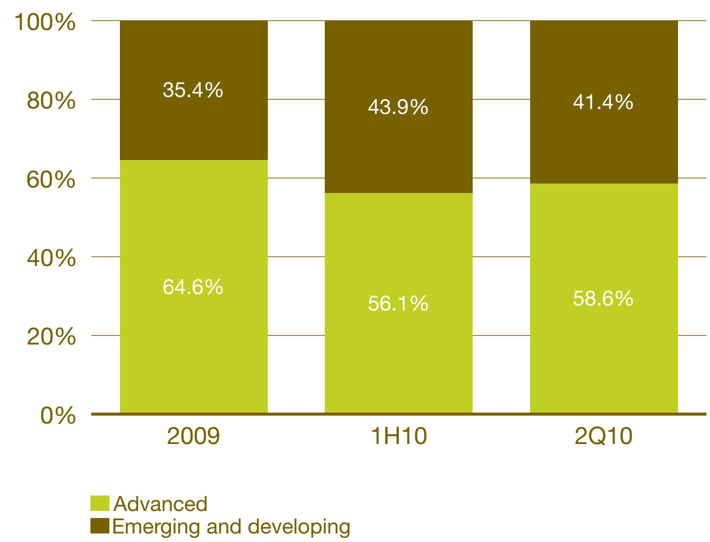
Regional distribution of all deals by target region

Measured by number of announced deals worth $50 million or more

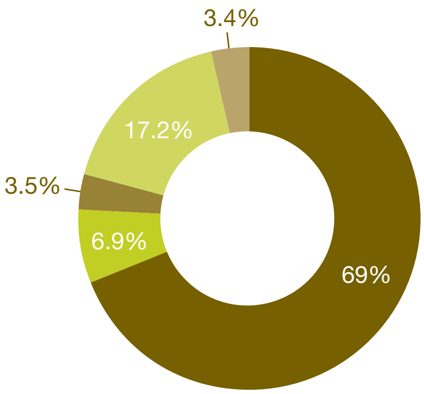


Acquirers from advanced versus emerging and developing economies

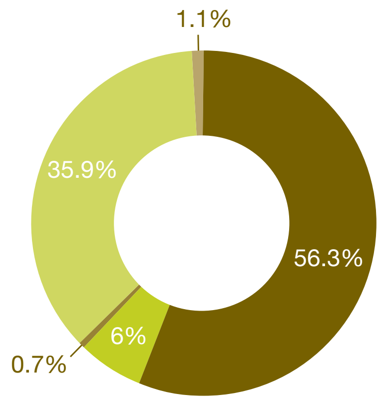
Measured by number of deals worth $50 million or more



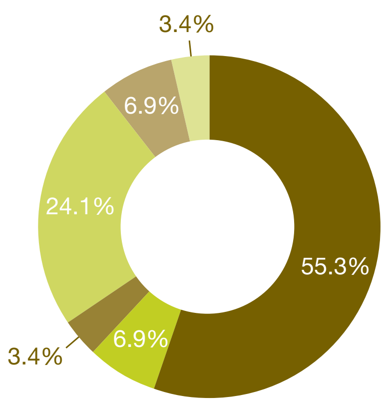
Regional distribution of deals by target region
Measured by number of deals worth $50 million or more (2Q10)



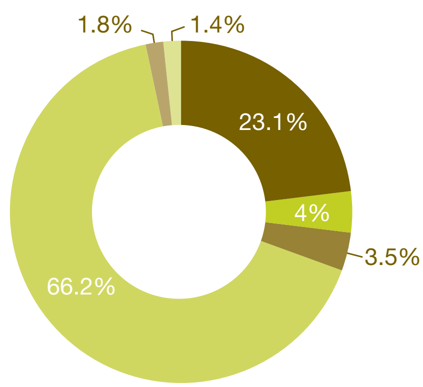
Regional distribution of deals by target region
Measured by value of deals worth $50 million or more (2Q10)



Regional distribution of deals by acquirer region
Measured by number of deals worth $50 million or more (2Q10)



Regional distribution of deals by acquirer region
Measured by value of deals worth $50 million or more (2Q10)



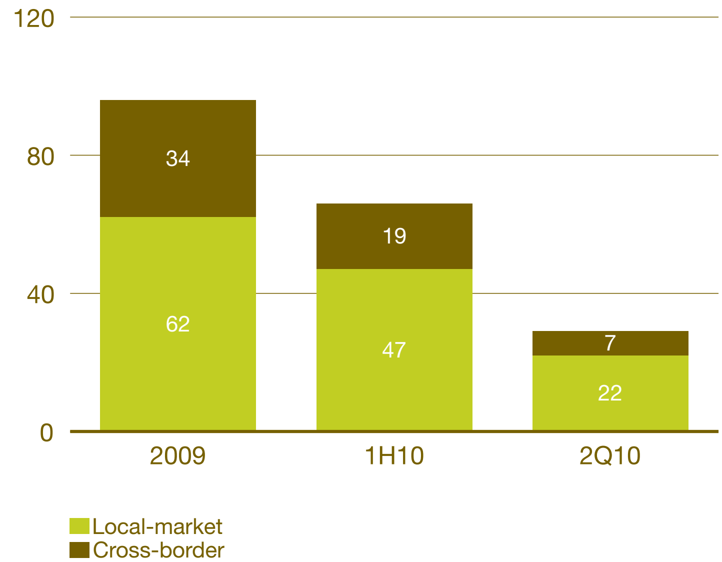
Asia & Oceania
UK & Eurozone
Europe ex-UK & Eurozone
North America
South America
Africa/Undisclosed

Acquirers still favoring potential of local-market targets

The proportion of deals that involved local-market entities increased in the second quarter compared with 2009 and the first half of 2010. This somewhat surprising trend seems to demonstrate that even as the overall deal market recovers, many acquirers remain focused on targets where cost synergies may be more readily available through a potential overlap of networks.

Should M&A in this sector continue to recover as expected, acquirers will likely demonstrate that they are more willing to engage in cross-border transactions. Such a change could present a broader array of return opportunities as well as risks.

Local-market vs. cross-border deals (all nations)
Measured by number of deals worth $50 million or more



Capturing deal value through successful integration

Patience is not a virtue when it comes to integration. Yet in mergers and acquisitions, the chaos surrounding post-deal activities often impedes companies' ability to simultaneously focus on maintaining current operations, realizing valuable synergies, and achieving timely operational integration.

Research shows that most mergers and acquisitions fail to meet expectations. Despite the best intentions, deals often fall short when the time comes to begin translating carefully developed strategy into the right mix of people, process, and technology. Smart buyers can improve their odds by taking steps to execute a fast-paced integration that makes early use of disciplined planning, a well-coordinated launch, and a relentless focus on the value drivers behind the deal.

Successful acquirers are both quick and thorough in making the transition to the new entity because they plan for that process well in advance. They use the time between the deal's announcement and its closing to draw up plans for integrating the two companies and implementing synergies. As a result, their integration plans and major players are set before the transaction closes. They also transfer all the knowledge gained from their due diligence to the integration effort. They act quickly and decisively, prioritizing integration activities to reduce uncertainty among workers. And they limit the integration time frame, realizing there is more willingness to change if it is done quickly.

These companies add to shareholder value by aligning integration strategies and priorities with strategic goals, addressing stakeholder concerns through ongoing communications, reducing workers' concerns over who will be responsible for what by assigning managers to specific responsibilities and accountabilities early, and treating integration as they would any other business process—in a highly disciplined, consistent manner.

How PricewaterhouseCoopers can help

Over the years, PwC has developed a winning approach to launching and managing enterprisewide integrations. Our solution includes a proven integration methodology and an expansive set of process tools, templates, and guides to support the overall integration.

Through a centralized integration management office (IMO) staffed by experienced PwC integration management professionals, we are able to uniformly roll out our methodology and facilitate the overall integration process across the combined organization.

PwC's M&A integration specialists help clients achieve rapid integration to capture desired synergies and allow for a quick return to "business as usual." This helps increase shareholder value and free up human and financial capital for reinvestment in core operations.

Our capabilities include both integration specialists and functional specialists to assist in the management and coordination of overall integration activities enterprisewide and to provide tactical experience in critical functional areas as needed.

Our merger integration services and capabilities include:

- Design the integration program and IMO
- Plan for Day One and execution readiness
- Conduct robust synergy analysis, implementation assistance, and tracking
- Blueprint and execute business process and systems integration
- Provide functional integration assistance and tactical implementation support
- Help deliver effective communications as well as effective people and change management

Specialty case study:
Well executed integration of a key function reduces merger risk

Client: Transportation and logistics company

Client Issue

When two major transportation companies prepared to merge, executives faced numerous decisions about the future entity and its operations. With the legal status of the merger moving forward on schedule, only a few quarters remained in which leaders could plan wisely and position operations strategically to perform as a new business model.

The two companies were like fraternal twins, alike in many ways, but significantly different in others. Overlap in the Internal Audit (IA) functions was negligible, offering few opportunities for streamlining infrastructure and reducing headcount in an enterprise that, combined, was double the size of the independent businesses it would comprise.

The acquired company's approach to IA was more traditional and controls-based compared with the acquiring entity, which tended toward a more holistic, consultative approach. The acquiring company's management team determined that it wanted to proceed with a traditional emphasis.

The challenge: Prepare the companies to combine the two IA departments while forging a viable, effective, and sustainable risk-focused IA function — while assuming no more cost than the acquiring company's IA department. The acquiring company, which had temporarily outsourced its IA function to PricewaterhouseCoopers' Internal Audit team, solicited PwC's help in determining the right, risk-averse way forward.

Approach

PwC reevaluated the objectives, mission, and focus of the two companies to develop a unified mandate for IA based on input from key stakeholders and periodic meetings and status calls with IA leadership.

The firm helped both companies identify which audit processes might be expendable in the interest of cost containment and which were crucial to risk management, and then recommended to the CFO and audit committee a unified audit approach for the upcoming year and beyond. PwC aligned administrative standards and procedures and processes, including job descriptions, a staffing plan, and training needs and standards. PwC also developed staff assignments and work paper and technology standards.

Impact

PwC's deep risk management experience provided an overarching awareness of the risks, not only of a failed IA function, but also of a failed merger. The PwC perspective and guidance enabled the company and key stakeholders to objectively and strategically view and manage the merger without incurring risk.

PricewaterhouseCoopers' transportation and logistics experience

Deep transportation and logistics experience

PwC provides advisory, assurance, or tax services for 82 percent of the transportation and logistics companies listed in the Fortune 500. Our Transportation and Logistics practice is composed of a global network of more than 4,400 industry professionals who service nearly 300 public and private companies located around the world. Central to the successful delivery of our services is an in-depth understanding of today's industry issues and our commitment to delivering economic value through specialized resources and international leading practices. Our highly skilled team encourages dialogue regarding complex business issues through active participation in industry conferences and associations, such as the Air Transport Association, American Trucking Association, American Railroad Association, and European Logistics Association.

Quality deal professionals

PwC's Transaction Services practice, with more than 6,500 dedicated deal professionals worldwide, has the right industry and functional experience to advise you on factors that could affect a transaction, including market, financial accounting, tax, human resources, operating, information technology, and supply chain considerations. Teamed with our Transportation and Logistics industry practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as industry point of view.

Local coverage, global connection

In addition to having more than 4,400 professionals who serve the transportation and logistics industry, our team is part of an expansive Industrial Products group that consists of nearly 31,000 professionals, including approximately 15,800 providing assurance services, 9,000 providing tax services, and 6,200 providing advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources, and know-how in the most effective and timely way.

Contacts

PwC Global Transportation & Logistics practice

PwC's Transportation and Logistics practice provides industry-focused assurance, tax, and advisory services. Through our global network, we can draw upon the in-depth industry experience of professionals in every country in which your company operates.

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PwC Global Transaction Services practice

PwC's Transaction Services practice offers a full range of tax, financial, business assurance, and advisory capabilities covering acquisitions, disposals, private equity, strategic M&A advice, advice on listed company transactions, financing, and public-private partnerships.

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Methodology

Intersections is an analysis of mergers and acquisitions in the global transportation and logistics industry. Information was sourced from Thomson Reuters and includes deals for which targets have primary NAICS codes that fall into one of the following NAICS industry groups, NAICS industries, or national industries: scheduled air transportation; nonscheduled air transportation; rail transportation; deep-sea, coastal, and Great Lakes water transportation; inland water transportation; general freight trucking; specialized freight trucking; urban transit systems; interurban and rural bus transportation; taxi and limousine service; school and employee bus transportation; charter bus industry; other transit and ground passenger transportation; support activities for air transportation; support activities for rail transportation; support activities for water transportation; other support activities for road transportation; freight transportation arrangement; other support activities for transportation; postal service; local messengers and local delivery; general warehousing and storage; refrigerated warehousing and storage; other warehousing and storage; and process, physical distribution, and logistics consulting.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between January 1, 2007, and June 30, 2010, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), withdrawn, seeking buyer, or seeking buyer withdrawn. The term *deal*, when referenced herein, refers to transactions with a disclosed value of at least $50 million unless otherwise noted.

Regional categories used in this report approximate United Nations (UN) regional groups as determined by the UN Statistics Division, with the exception of the North America region (includes North America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom, plus Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country, and China, when referenced separately, includes Hong Kong. International Monetary Fund classifications were used to categorize economies as advanced or developing and emerging.

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